



ANNUAL REPORT 2010-2011

Hancock-Wood Electric Cooperative, Inc.

1399 Business Park Dr. S.
P.O. Box 190
North Baltimore, OH 45872

www.hwe.coop



EXECUTIVE MESSAGE

Dear Hancock-Wood membership:

Over the past year, Hancock-Wood Electric Cooperative has shown us that electric cooperatives remain as relevant now as they were 74 years ago when our co-op was first formed. As a not-for-profit member-owned cooperative, we have been able to adapt to recent economic challenges while still providing energy at competitive prices. Your Board of Directors sets corporate policies that anticipate and respond to a growing set of challenges, ensuring that HWEC fulfills its mission to provide electric energy to its members at a competitive price consistent with good management practices.

There were several achievements and positive developments during the past year that indicate we remain on very strong financial footing and are performing at a high level of efficiency.

Over the past fiscal year, the company extended electric service to CSX intermodal, Home Depot Distribution Center, and the new Lakota School. New electrical loads along with a winter and summer season that provided additional energy sales resulted in the company ending the year with a strong financial performance.

The Board of Trustees and management continued to move forward with distribution system improvements such as substation upgrades and distribution circuit rebuild work to improve member service reliability and satisfaction. Service to our membership remains the key driver of all company investments now and in the future.

Last year, the Environmental Protection Agency (EPA) continued to move forward with (increasingly restrictive) regulations that will impact energy development, wholesale generation costs, and will bring future energy supply into question. Our membership has already seen escalating wholesale rates on their electric bills stemming from EPA mandates on power plants, which limits sulfur dioxide and nitrogen oxide emissions. Proposed EPA regulations are specifically aimed at eliminating coal as an energy source even though it is domestic, abundant, and low cost. All of these regulations are being formulated by the EPA under the existing Clean Air Act and outside of Congressional oversight. The board and management will continue to work with Congress to slow down these overreaching and costly regulations.

Technology was another area that the board and management embraced over the past year. A significant communication project to replace the company's existing truck radio system to meet FCC narrow-banding requirements was completed over the past year. A second project that was approved by the board of trustees during 2010, which involved the installation of a Supervisory Control and Data Acquisition system, which when completed, will substantially reduce outage restoration times during substation outages to minutes rather than hours.

Lastly, Safety continues to be the Board and Management's number one priority. Safety of our employees is paramount to the success of the organization. The organization successfully completed its National Safety Re-Certification process and ended the year without any disabling employee injuries.

In summary, 2010 was a comeback year for the organization. Emphasis was placed on safety, distribution system improvements, and technology. Technology not only allows the company to keep up with a rapidly changing environment, but improves service and member satisfaction. We have behind us a proud and distinguished legacy. Before us is a challenging, but exciting future. With our member's support, this organization will continue to grow and prosper.



George Walton
President & CEO



Edward B. Crawford
Chairman of the Board of Trustees

INDEPENDENT AUDITORS REPORT

To the Board of Trustees
Ohio 87 Hancock-Wood Electric Cooperative, Inc. and Subsidiary
North Baltimore, Ohio

Independent Auditors' Report

We have audited the accompanying consolidated balance sheets of Ohio 87 Wood Hancock-Wood Electric Cooperative, Inc. and Subsidiary as of June 30, 2011 and 2010, and the related consolidated statements of revenues, expenses, patronage capital and comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ohio 87 Wood Hancock-Wood Electric Cooperative, Inc. and Subsidiary as of June 30, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 23, 2011 on our consideration of Ohio 87 Wood Hancock-Wood Electric Cooperative, Inc. and Subsidiary's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Columbus, Ohio
August 23, 2011

OHIO 87 WOOD
HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
Consolidated Balance Sheets
June 30, 2011 and 2010

ASSETS

	2011	2010
Utility Plant		
In service - at cost	\$77,484,085	\$ 72,506,885
Construction work in progress	<u>2,267,516</u>	<u>3,848,969</u>
	79,751,601	76,355,854
Less: accumulated depreciation and amortization	<u>(17,949,519)</u>	<u>(16,595,834)</u>
Utility plant, net	<u>61,802,082</u>	<u>59,760,020</u>
Investments and Other Assets		
Patronage capital from associated organizations	11,236,147	11,433,801
Investments in associated organizations	2,385,592	2,365,284
Goodwill	<u>731,892</u>	<u>731,892</u>
Total investments and other assets	<u>14,353,631</u>	<u>14,530,977</u>
Current Assets		
Cash and cash equivalents	3,025,451	977,641
Accounts receivable, less allowance for doubtful accounts of \$526,367 and \$448,548 in 2011 and 2010, respectively	3,481,665	3,779,145
Materials and supplies	1,358,719	889,969
Prepaid expenses and other current assets	<u>442,704</u>	<u>202,684</u>
Total current assets	<u>8,308,539</u>	<u>5,849,439</u>
Deferred Charges	<u>587,242</u>	<u>943,901</u>
TOTAL ASSETS	<u>\$ 85,051,494</u>	<u>\$ 81,084,337</u>

The accompanying notes are an integral part of the consolidated financial statements.

OHIO 87 WOOD
HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
Consolidated Balance Sheets (continued)
June 30, 2011 and 2010

EQUITY AND LIABILITIES

	2011	2010
Members' Equity		
Patronage capital	\$ 38,860,264	\$ 36,468,558
Other equities	1,067,963	576,082
Accumulated other comprehensive income (loss)	<u>57,300</u>	<u>(493,300)</u>
Total members' equity	<u>39,985,527</u>	<u>36,551,340</u>
Long-Term Debt , net of current portion	<u>35,896,971</u>	<u>35,390,707</u>
Accumulated Provision for Pensions and Benefits , net of current portion	<u>1,975,900</u>	<u>2,380,400</u>
Current Liabilities		
Current maturities of long-term debt	1,150,319	1,353,108
Note payable - short-term	-	1,000,000
Accounts payable - purchased power	1,861,232	1,785,166
Accounts payable - other	451,090	615,578
Accumulated provision for pensions and benefits	67,400	92,600
Consumer deposits	249,166	233,500
Accrued taxes	1,226,730	1,106,820
Deferred credits	821,902	-
Other current liabilities	<u>1,365,257</u>	<u>575,118</u>
Total current liabilities	<u>7,193,096</u>	<u>6,761,890</u>
TOTAL MEMBERS' EQUITY AND LIABILITIES	<u>\$ 85,051,494</u>	<u>\$ 81,084,337</u>

The accompanying notes are an integral part of the consolidated financial statements.

OHIO 87 WOOD
HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
Consolidated Statements of Revenues, Expenses, Patronage Capital and
Comprehensive Income
For the years ended June 30, 2011 and 2010

	2011	2010
Operating Revenues		
Electric revenues	\$ 37,530,568	\$ 32,812,874
Propane revenues	<u>4,398,561</u>	<u>3,639,561</u>
Total operating revenues	<u>41,929,129</u>	<u>36,452,435</u>
Operating Expenses		
Cost of power	22,579,819	19,667,923
Cost of propane	2,653,734	2,607,815
Distribution and transmission - operation	1,639,537	1,620,810
Distribution - maintenance	1,451,510	1,106,006
Consumer records and collection expense	686,372	589,033
Administrative and general	3,799,876	3,177,360
Sales expense	167,384	195,758
Depreciation and amortization	2,531,354	2,503,446
Taxes	1,524,470	1,392,368
Interest on long-term debt and other interest expense	1,960,991	1,923,721
Total operating expenses	<u>38,995,047</u>	<u>34,784,240</u>
Operating margins before capital credits	2,934,082	1,668,195
Capital Credits	<u>523,775</u>	<u>101,893</u>
Net operating margins	<u>3,457,857</u>	<u>1,770,088</u>
Non-Operating Margins		
Interest and dividend income	95,082	63,855
Other non-operating expense	2,372	8,751
Gain (loss) on disposition of utility plant	<u>3,162</u>	<u>(231,377)</u>
Total non-operating margins	<u>100,616</u>	<u>(158,771)</u>
Net Margins - before provision for income taxes	3,558,473	1,611,317
Income Tax Expense	<u>208,852</u>	<u>100,613</u>
Net Margins	3,349,621	1,510,704
Patronage Capital - Beginning of Year	36,468,558	35,488,619
Subsidiary net income - not allocated	(415,897)	25,698
Retirement of capital credits reassigned	33,647	37,434
Retirement of capital credits	<u>(575,665)</u>	<u>(593,897)</u>
Patronage Capital - End of Year	<u>\$ 38,860,264</u>	<u>\$ 36,468,558</u>
Net Margins	\$ 3,349,621	\$ 1,510,704
Accumulated Provision for Pensions and Benefits Adjustment	<u>550,600</u>	<u>(288,700)</u>
Comprehensive Income	<u>\$ 3,900,221</u>	<u>\$ 1,222,004</u>

The accompanying notes are an integral part of the consolidated financial statements.

OHIO 87 WOOD
HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the years ended June 30, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities:		
Net Margins	<u>\$ 3,349,621</u>	<u>\$ 1,510,704</u>
Adjustments to reconcile net margins to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	2,666,155	2,503,446
(Gain) loss on disposition of utility plant	(3,162)	231,377
Bad debt expense	128,544	60,884
Earnings on Buckeye and other capital credits	(523,775)	(1 01,893)
Deferred tax expense	208,852	100,613
(Increase) decrease in:		
Accounts receivable	168,936	(946,115)
Materials and supplies	(468,750)	1 96,091
Prepaid expenses and other current assets	(240,020)	20,666
Deferred charges	356,659	(309,429)
Accounts payable - purchased power and other	(88,422)	1 72,100
Accumulated provision for pensions and benefits	120,900	166,612
Accrued taxes	119,910	115,044
Deferred credits	613,050	-
Other current liabilities	790,139	(35,134)
Total adjustments	<u>3,849,016</u>	<u>2,174,262</u>
Net cash and cash equivalents provided by operating activities	<u>7,198,637</u>	<u>3,684,966</u>
Cash Flows from Investing Activities:		
Construction and acquisition of utility plant	(4,735,444)	(4,204,162)
Proceeds from disposal of utility plant	30,389	562,377
Patronage capital from and investments in associated organizations	701,121	741,277
Net cash and cash equivalents used in investing activities	<u>(4,003,934)</u>	<u>(2,900,508)</u>
Cash Flows from Financing Activities:		
Increase in consumer deposits	15,666	38,713
Payments on note payable - short term	(1,000,000)	(1,650,000)
Payments on long-term debt	(4,808,509)	(1,205,540)
Prepayments on long-term debt	(903,690)	-
Proceeds from long-term debt	6,015,674	3,000,000
Patronage capital credits retired	(542,018)	(556,463)
Other equities	75,984	60,139
Net cash and cash equivalents used in financing activities	<u>(1,146,893)</u>	<u>(313,151)</u>
Net increase in cash and cash equivalents	2,047,810	471,307
Cash and Cash Equivalents - Beginning of Year	<u>977,641</u>	<u>506,334</u>
Cash and Cash Equivalents - End of Year	<u>\$ 3,025,451</u>	<u>\$ 977,641</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest expense	\$ 1,946,056	\$ 1,922,408

The accompanying notes are an integral part of the consolidated financial statements.

Nature and Scope of Activities

Ohio 87 Wood Hancock-Wood Electric Cooperative, Inc. and Subsidiary (HWE) operate in Hancock, Wood and nine surrounding counties in Northwest Ohio. HWE is incorporated under the laws of the State of Ohio, operates as a cooperative, and is exempt from federal taxation under Section 501(c)(12)(a) of the Internal Revenue Code. Its primary purpose is to provide electric service to rural consumers. Its subsidiary, Prism Solutions, Inc., (Solutions) and its wholly owned subsidiary, Prism Propane Services of Ohio, LLC, (Propane) are distributors of propane gas and related products.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of HWE and its wholly owned subsidiary. For financial statement purposes, Solutions and Propane are consolidated prior to consolidation of HWE. All inter-company accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Utility Plant

HWE records amounts expended in connection with the purchase or construction of utility plant assets at cost. Utility plant assets also include the costs of betterments and major replacements. Utility plants that have not been placed in service are capitalized as construction work in progress and are not depreciated until they are placed in service. Operations are charged with labor, material, supervision and other costs incurred to maintain the properties in efficient operating condition. Upon retirement, the cost, together with the cost of removal less salvage, is charged to accumulated depreciation.

Depreciation is provided for by the straight-line method over the estimated useful lives of the property as prescribed by the Rural Utilities Services (RUS). The provisions are determined by the use of functional composite rates as follows:

Transmission plant	2.75%	(36 years)
Distribution plant	3.00%	(33 years)



Summary of Significant Accounting Policies (continued)

Utility Plant (continued)

General plant depreciation rates have been applied on a composite and straight-line basis and are as follows:

Structures and improvements	2.00 – 20.00%
Office furniture and fixtures	6.66 – 33.33%
Transportation equipment	12.50 – 14.28%
Other general plant	5.00 – 33.33%

Impairment of Long-Lived Assets

The carrying value of long-lived assets is reviewed for impairment whenever events or changes in circumstances indicate the amount of the assets may not be recoverable. When an indication of impairment is present and the undiscounted cash flows estimated to be generated by the related assets are less than the assets' carrying amount, an impairment loss will be recorded based on the difference between the carrying amount of the assets and their estimated fair value. There were no such impairment adjustments at June 30, 2011 or 2010.

Patronage Capital from Associated Organizations and General and Transmission Capital Credits

HWE records its investment in patronage capital on the equity method. Amounts included under these captions principally represent the allocation of Buckeye Power, Inc.'s (Buckeye) net margins (in accordance with its code of regulations) to its members based on purchases of electric power and energy from Buckeye.

Investments in Associated Organizations

For financial reporting purposes, HWE accounts for its investments in associated organizations at cost. HWE believes it is not practical to estimate the fair value of investments in other cooperatives due to the excessive cost involved as there is no established market for these investments and HWE does not have the ability to sell or transfer these investments.

Summary of Significant Accounting Policies (continued)

Goodwill

The acquisition of a 50% interest in Propane resulted in the recognition of goodwill in the amount of \$731,892, which represents the amount paid in excess of the book value of the assets acquired. The Company performed an annual assessment for impairment as of the balance sheet dates. The assessment included comparing the carrying amount of net assets, including goodwill, of Propane to its respective fair value as of the date of the assessment. Fair value was estimated based upon normalized earnings before interest and taxes, cash flow to invested capital and operating fair value of invested capital model. Based on this analysis, management determined that goodwill was not impaired as of June 30, 2011 and 2010.

Cash and Cash Equivalents

HWE considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of demand deposits and money market funds. HWE maintains its cash in ten accounts with three financial institutions, which may at times exceed federally insured limits. All non-interest bearing cash balances were fully insured at June 30, 2011 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there is no limit to the amount of insurance for eligible accounts. Beginning 2013, insurance coverage will revert to \$250,000 per depositor at each financial institution, and non-interest bearing cash balances may again exceed federally insured limits. Interest-bearing amounts on deposit in excess of federally insured limits at June 30, 2011 approximated \$2,629,000.

Accounts Receivable and Allowance for Doubtful Accounts

HWE's accounts receivables are from sales to its electric and propane customers. Credit is extended based on evaluation of a customer's financial condition; sometimes a deposit is required based on these evaluations. Interest is charged on certain accounts receivable. Accounts receivable are due within 30 days and are stated net of an allowance for doubtful accounts. Accounts that are outstanding longer than the contractual payment terms are considered past due. Interest is not charged on delinquent account balances. Management determines its allowance by considering a number of factors, previous loss history, the customer's current ability to pay its obligation, and the condition of the general economy and industry as a whole. HWE writes-off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

Materials and Supplies

Materials and supplies are stated at the lower of cost, determined by the average cost method, or market. Materials and supplies consist primarily of items used in the transporting of energy to consumers.



Summary of Significant Accounting Policies (continued)

Deferred Charges

Amounts included under this caption represent costs incurred which are chargeable to future periods. HWE amortizes these costs by charges to operations or construction work in progress by the straight-line method over the period to be benefited.

Patronage Capital

HWE adopted the patronage capital credits plan of non-profit cooperative accounting. Operating margins since that date have been assigned to patrons' individual patronage accounts in accordance with HWE's Code of Regulations. There are other equities not subject to distribution to members.

Under HWE's capital credits retirement policy, patronage capital, which has been credited to a patron's account, becomes eligible for retirement either in the 20th year following the year for which such capital has been credited to the patrons account or upon the death of the patron. Any retirement of capital credits (which is discretionary and not mandatory) is subject to a proper claim being made by or on behalf of the individual patron, compliance with all provisions of HWE's Code of Regulations and a determination that the financial condition of HWE will not be impaired. HWE may revise or rescind this policy at any time. Patronage capital, which remains unclaimed after a period of four years from the date it has been made available to the patron for retirement, may be reassigned to current patrons' accounts.

Revenue Recognition

HWE recognizes revenue when billed. HWE also records an estimate of revenues for electricity delivered but not yet billed. As of June 30, 2011 and 2010, HWE had unbilled revenues of \$1,757,950 and \$1,752,960, respectively, included in accounts receivable.

Income Taxes

The Internal Revenue Service previously ruled that the HWE is exempt from federal income taxes under §501(a) as an organization described in §501(c)(12), provided at least 85% of its total revenue consists of amounts collected from members for the sole purpose of meeting losses and expenses. Evaluation by HWE has determined that it continues to be exempt under the aforementioned requirement and, accordingly, no provision for federal income tax has been made. HWE is subject to unrelated business income tax, but management has determined that none of their income is subject to the tax.

A provision has been made for deferred income taxes for Solutions using the liability method. Deferred tax assets are recognized for deductible and taxable temporary timing differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred taxes are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Summary of Significant Accounting Policies (continued)

Income Taxes

HWE accounts for uncertainty in income taxes in its financial statements as required under Financial Accounting Standards Codification, Accounting for Uncertainty in Income Taxes. The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The standard also provides guidance on de-recognition, classification, interest, and penalties, accounting in interim periods, disclosure and transition accounting. HWE's audit periods prior to 2008 are closed. Management determined there were no material uncertain positions taken by the company in its tax returns.

Materials and Supplies

Materials and supplies consist of the following at June 30:

	2011	2010
Electrical supplies	\$ 791,449	\$ 626,260
Propane supplies	<u>567,270</u>	<u>263,709</u>
	<u>\$ 1,358,719</u>	<u>\$ 889,969</u>

Utility Plant

Utility plant consists of the following at June 30:

	Cost	Accumulated Depreciation/ Depletion	Net Book Value
June 30, 2011:			
Electric utility	\$ 76,105,145	\$ 15,376,275	\$ 60,728,870
Propane utility	<u>3,646,456</u>	<u>2,573,244</u>	<u>1,073,212</u>
	<u>\$ 79,751,601</u>	<u>\$ 17,949,519</u>	<u>\$ 61,802,082</u>
June 30, 2010:			
Electric utility	\$ 73,024,299	\$ 14,235,855	\$ 58,788,444
Propane utility	<u>3,331,555</u>	<u>2,359,979</u>	<u>971,576</u>
	<u>\$ 76,355,854</u>	<u>\$ 16,595,834</u>	<u>\$ 59,760,020</u>

Included in the above table is \$2,267,516 and \$3,848,969 of assets under construction or development as of June 30, 2011 and 2010, respectively.



OHIO 87 WOOD
HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Patronage Capital from and Investments in Associated Organizations

Patronage capital from and investments in associated organizations consisted of the following at June 30:

	2011	2010
Patronage Capital:		
Buckeye	\$ 10,846,921	\$ 11,087,500
National Rural Utilities Cooperative Finance Corporation	224,061	186,412
Rural Electric Supply Cooperative	122,197	119,117
Southeastern Data Cooperative, Inc.	7,819	7,819
National Rural Telecommunications, Cooperative	1,007	1,118
Cooperative Response Center, Inc.	4,768	4,768
Other organizations	29,374	27,067
Total	<u>\$ 11,236,147</u>	<u>\$ 11,433,801</u>
	2011	2010
Investments in Associated Organizations:		
Investment in Buckeye	\$ 1,372,076	\$ 1,372,076
Capital term certificates of the National Rural Utilities Cooperative Finance Corporation	698,055	705,661
Investment in Federated Rural Electric Insurance Exchange	128,437	125,446
Investment in Heartland Emergency Equipment, Ltd.	111,621	109,657
Investment in other associated organizations	<u>75,403</u>	<u>52,444</u>
Total	<u>\$ 2,385,592</u>	<u>\$ 2,365,284</u>

Buckeye is a non-profit corporation operating on a cooperative basis for the principal purpose of generating and acquiring electric power and energy, and transmitting and distributing such power and energy to its members. At June 30, 2011, this membership consisted of 25 nonprofit electric companies operating on a cooperative basis, including HWE.

Patronage Capital from and Investments in Associated Organizations (continued)

As specified in a wholesale power agreement, HWE is required to purchase the power and energy required to service its customers from Buckeye. The agreement further provides that the rates charged by Buckeye for electric power and energy furnished can be adjusted so that such rates produce revenues sufficient to meet operating expenses, principal indebtedness and any other costs or expenses incurred as well as reasonable reserves.

Patronage capital from associated organizations in the balance sheet includes Buckeye capital credits allocated to HWE, based upon HWE's power and energy purchased. At June 30, 2011 and 2010, \$10,846,921 and \$11,087,500 of Buckeye capital credits have not been retired, respectively. In 2011 and 2010, Buckeye retired and paid to HWE capital credits totaling \$622,597 (earned in 1996) and \$657,680 (earned in 1995), respectively.

Deferred Charges and Credits

The following is a summary of amounts recorded as deferred charges and credits as of June 30:

	2011	2010
<u>Deferred Charges</u>		
Other regulatory assets – past service pension cost	\$ 200,059	\$ 212,184
Other regulatory assets – medical insurance	90,248	89,455
Other regulatory assets –unrecovered price cost adjustment	-	529,847
Transportation expense clearing	2,079	311
Deferred aid to construction	-	6,060
Deferred rate study cost	-	5,519
Work plan and system studies	197,509	146,138
Holiday and sick time clearing	95,374	-
Deferred refinance charges	1,973	2,334
Total deferred charges	<u>\$ 587,242</u>	<u>\$ 943,901</u>
<u>Deferred Credits</u>		
Other regulatory assets – recovered price cost adjustment	\$ 565,104	\$ -
Deferred tax liability – Solutions	256,798	-
Total deferred credits	<u>\$ 821,902</u>	<u>\$ -</u>



OHIO 87 WOOD
HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Patronage Capital

Patronage capital consisted of the following at June 30:

	2011	2010
Total assignable and assigned to date	\$ 53,348,128	\$ 50,414,404
Less: retirements to date	<u>(14,487,864)</u>	<u>(13,945,846)</u>
Total	<u>\$ 38,860,264</u>	<u>\$ 36,468,558</u>

Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed 30% of the total assets of HWE, the return to patrons of capital contributed by them is limited generally to 25% of the patronage capital or margins received by HWE in the prior calendar year. The equities and margins of HWE represent 46% and 45% in 2011 and 2010, respectively, of the total assets at the balance sheet date. Capital credit retirements in the amount of \$542,018 in 2011 and \$556,463 in 2010 were paid to members and former members.

Other Equities

Other equities consisted of the following at June 30:

	2011	2010
Donated capital	\$ 9,383	\$ 6,950
Retired capital credits gain	666,646	593,095
Subsidiary equity – not allocated	<u>556,786</u>	<u>(23,963)</u>
Total	<u>\$ 1,232,815</u>	<u>\$ 576,082</u>

OHIO 87 WOOD
HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Long-Term Debt

Long-term debt is represented by mortgage notes payable to the United States of America (RUS), the Federal Financing Bank (FFB) and to the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank.

Following is a summary of outstanding long-term debt as of June 30:

	2011	2010
4.317% note due December 2036	\$ 1,317,372	\$ 1,345,210
5.00% notes due November 2028	-	1,574,962
4.736% note due December 2036	1,077,986	1,099,336
4.74% note due November 2037	2,867,067	2,910,042
4.765% note due December 2036	886,796	904,281
4.798% note due December 2036	1,615,929	1,647,627
5.00% notes due between June 2023 and July 2025	-	1,974,078
5.18% note due December 2036	1,878,048	1,912,747
5.218% note due December 2036	4,047,981	4,122,326
5.45% note due June 2011	-	278,300
5.85% note due March 2012	15,512	45,218
5.857% note due December 2031	791,736	811,235
6.059% note due December 2031	1,588,804	1,626,952
4.74% note due October 2038	4,316,798	4,387,635
6.30% note due September 2028	3,904,865	3,941,954
3.40% notes due June 2014 through September 2028	1,865,322	2,009,667
4.54% note due December 2022	3,381,228	-
6.33% note due December 2020	598,520	642,868
6.50% note due September 2021	638,074	680,617
6.48% note due September 2028	780,167	803,784
6.58% note due March 2022	214,989	228,244
4.29% note due November 2040	2,475,938	-
5.218% note due April 2040	2,948,030	2,992,802
Other	39,948	-
	<u>37,251,110</u>	35,939,885
Less: prepayment of debt	(903,690)	-
Less: current maturities	<u>(1,039,505)</u>	<u>(1,249,048)</u>
Total	<u>\$ 35,307,915</u>	<u>\$ 34,690,837</u>

Mortgage Notes – RUS, FFB, CFC and CoBank

HWE made advance payments on the loan funds in the amount of \$903,690 as of June 30, 2011, which bears interest at a rate of 5.00% per annum. Advance payments and interest are restricted to payments on the outstanding balances from RUS. There were unadvanced loan funds available to HWE on loan commitments from RUS and CFC at June 30, 2010 in the amount of \$2,500,000.



Mortgage Notes – RUS, FFB, CFC and CoBank (continued)

Principal and interest installments on the above notes are due in monthly and quarterly amounts totaling \$2,588,611 annually. As of June 30, 2011, annual maturities of long-term debt outstanding for the next five years and thereafter are as follows:

2012	\$ 1,039,505
2013	1,081,722
2014	1,121,473
2015	1,128,767
2016	1,175,090
Thereafter	<u>30,800,863</u>
Total	<u>\$ 36,347,420</u>

HWE maintains a line of credit with CFC bearing a current interest rate of 4.75% per annum in the amount of \$3,850,000. There was no outstanding balance at June 30, 2011 or June 30, 2010. The line of credit matures December 31, 2049.

In February 2011, HWE entered into a loan agreement with RUS for an additional \$17.5 million for capital improvements. There were no draws on this loan as of June 30, 2011.

HWE also had a line of credit with CoBank bearing a current interest rate of 4.21% per annum with a maximum borrowing capacity of \$5,000,000. The line of credit was renewed in January 2011 and a new maximum borrowing capacity was granted in the amount of \$8,000,000. There was no outstanding balance at June 30, 2011. There was an outstanding balance of \$1,000,000 at June 30, 2010. The line of credit matures January 31, 2012.

Substantially all assets of HWE and its subsidiaries are pledged as security for the long-term debt to RUS, FFB, CFC and CoBank.

Other Long-Term Debt

Propane has a line of credit with CoBank and may borrow up to \$1,000,000 under terms of the agreement. Interest accrues on the line of credit at a current rate of 4.26% payable quarterly and matures January 31, 2012. The line is secured by the Propane's accounts receivable, inventory and property assets and is guaranteed by Solutions and HWE. There was no outstanding balance on this obligation at June 30, 2011 or 2010.

Propane is also obligated for amounts due to CoBank, secured by the accounts receivable, inventory and property assets and the guarantees of Solutions and HWE in the amount of \$690,870 and \$803,930 at June 30, 2011 and 2010, respectively, bearing an interest rate of 6.32%.

Other Long-Term Debt (continued)

Annual maturities of long-term debt outstanding for the next five years and thereafter at June 30, 2011 are as follows:

2012	\$ 110,814
2013	118,007
2014	125,666
2015	133,821
2016	91,879
Thereafter	<u>119,683</u>
Total	\$ 699,870

Retirement Plans

HWE participates in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program, a multi-employer defined benefit pension plan. All employees who have been employed in excess of one year are eligible to participate in this non-contributory plan. HWE's contribution required by the NRECA to service the program amounted to \$575,706 and \$606,321 for 2011 and 2010, respectively. During 2011, HWE offered early retirement to four employees for an agreed upon settlement. Expense to HWE for this early retirement settlement amounted to \$1,114,754, which has been accrued by HWE and is expected to be paid in lump sum in the next twelve months.

In addition, HWE also participates in the NRECA 401(k) plan, a multi-employer defined contribution plan. All employees who have been employed in excess of one year are eligible to participate in this contributory plan. HWE makes matching contributions up to a maximum of 5% for all eligible employees hired prior to June 1, 2007. HWE also makes a matching contribution up to a maximum of 6% for all eligible employees hired after May 31, 2007. HWE's contribution expense related to the plan totaled approximately \$56,651 and \$99,984 for 2011 and 2010, respectively.

HWE sponsors an unfunded defined benefit postretirement medical insurance plan, which covers substantially all employees retiring from HWE who were hired prior to January 1, 2004. The following table sets forth the Plan's status reconciled with the amount shown in the balance sheets at June 30, 2011 and 2010.

	2011	2010
Accumulated postretirement benefit obligation	\$ 2,043,300	\$ 2,473,000
Accrued benefit cost included in the balance sheet	2,043,300	2,473,000
Net periodic postretirement benefit cost for the year	193,800	256,900
Benefits paid	59,595	51,293



OHIO 87 WOOD
HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
June 30, 2011 and 2010

Retirement Plans (continued)

Benefits expected to be paid in the next five years and in the aggregate for the five years thereafter are:

2012	\$ 67,400
2013	68,400
2014	71,100
2015	75,900
2016	75,000
2017-2021	443,200
Total	\$ 801,000

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009. The rate was assumed to decrease gradually to 5% in the year 2017 and remain at that level thereafter. These expected benefit payments are estimated and could change in the near term.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 5.20% and 6.25% for 2011 and 2010, respectively.

The Federal Medicare Prescription Drug, Improvement and Modernization Act of 2003 provides a federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Measurement of the accumulated post retirement benefit and the net periodic postretirement benefit do not include amounts associated with the Federal subsidy since the equivalency of the employer benefit to the Medicare Part D benefit has not been determined.

Income Taxes

The net deferred tax liabilities recorded at June 30, 2011 and 2010 are comprised of the tax benefits relating to net operating loss carryforwards, temporary timing differences resulting from differences between book and tax depreciation, capital loss carryforwards and a deferred tax valuation allowance.

The deferred tax liabilities are as follows at June 30:

	2011	2010
Utility plant	\$(347,968)	\$(250,969)
Allowance for doubtful accounts	87,770	66,886
Operating loss	-	136,136
Accrued vacation	<u>3,400</u>	-
Net deferred tax liability	<u>\$(256,798)</u>	<u>\$(47,947)</u>

Income Taxes (continued)

Approximately \$452,000 of net operating loss carryforwards were used to offset taxable income for the year ended June 30, 2011. No operating loss carryforwards remain at June 30, 2011.

Commitments

Propane has entered into various propane supply agreements. The agreements require Propane to purchase specified quantities of propane through April 2012 at a firm price. Title and risk are considered to pass to Propane at the time the propane is delivered into its bulk plant. Propane's future commitments covering the contracts at June 30, 2011, are approximately \$1,218,641.

Of HWE's workforce, approximately 60% is represented by a collective bargaining agreement, which was renewed in February 2011. The new agreement extends to February 2014.

Subsequent Events – Date of Management Evaluation

Management has evaluated subsequent events through August 23, 2011, the date on which the consolidated financial statements were available to be issued.





SUPPLEMENTARY INFORMATION



To the Board of Trustees
Hancock-Wood Electric Cooperative, Inc.
North Baltimore, Ohio

Independent Auditors' Report on Supplementary Information

Our report on our audits of the basic consolidated financial statements of Ohio 87 Wood Hancock-Wood Electric Cooperative, Inc. and Subsidiary for June 30, 2011 and 2010 appears in the preceding section of this report on Page 3. Those audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The following supplementary information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and is presented for purposes of additional analysis. Accordingly, we express no opinion on the supplementary information.

Columbus, Ohio
August 23, 2011

OHIO 87 WOOD
HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
Consolidated Balance Sheets
Wholly Owned Subsidiary - Prism Solutions, Inc. and Subsidiary
June 30, 2011 and 2010

ASSETS

	2011	2010
Current Assets		
Cash	\$ 772,907	\$ 790,921
Accounts receivable	146,469	42,888
Inventory, at average cost	567,270	263,709
Prepaid expenses	<u>448,714</u>	<u>420,930</u>
Total current assets	<u>1,935,360</u>	<u>1,518,448</u>
Investments in Associated Organizations	<u>26,275</u>	<u>23,968</u>
Property Assets, at cost		
Total property assets	3,646,456	3,331,555
Less: accumulated depreciation	<u>(2,573,244)</u>	<u>(2,359,979)</u>
Net property assets	<u>1,073,212</u>	<u>971,576</u>
Other Assets		
Deposits	1,265	12,811
Goodwill	731,892	731,892
Deferred refinance charges	<u>1,973</u>	<u>2,334</u>
Total other assets	<u>735,130</u>	<u>747,037</u>
TOTAL ASSETS	<u>\$ 3,769,977</u>	<u>\$ 3,261,029</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Current Liabilities		
Current maturities of long-term debt	\$ 116,547	\$ 109,481
Accounts payable - trade	243,594	70,590
Accounts payable - Hancock-Wood Electric Cooperative, Inc.	-	124,380
Customer deposits	88,164	83,102
Accrued expenses	<u>133,691</u>	<u>193,671</u>
Total current liabilities	<u>581,996</u>	<u>581,224</u>
Long-Term Debt, net of current maturities	938,251	1,054,823
Deferred Tax Liability, Net of Valuation Allowance	256,798	47,947
Total liabilities	<u>1,777,045</u>	<u>1,683,994</u>
Stockholder's Equity		
Common stock, par value 1,000 per share, 750 shares authorized, 540 shares issued and outstanding	1,601,000	1,601,000
Retained earnings (deficit)	<u>391,932</u>	<u>(23,965)</u>
Total stockholder's equity	<u>1,992,932</u>	<u>1,577,035</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 3,769,977</u>	<u>\$ 3,261,029</u>

OHIO 87 WOOD
HANCOCK-WOOD ELECTRIC COOPERATIVE, INC. AND SUBSIDIARY
Consolidated Balance Sheets of Operations and Retained Earnings
Wholly Owned Subsidiary - Prism Solutions, Inc. and Subsidiary
For the Years Ended June 30, 2011 and 2010

	2011	2010
Sales	\$ 4,403,925	\$ 3,639,561
Cost of Sales	<u>2,653,734</u>	<u>2,607,815</u>
Gross profit	<u>1,750,191</u>	<u>1,031,746</u>
Operating Expenses:		
Amortization and depreciation	213,443	227,677
Interest expense	70,202	77,605
Marketing	12,249	6,166
Professional fees	31,371	33,011
Office supplies and expense	12,633	3,139
Other general and administrative expense	730,203	599,741
Taxes	<u>74,054</u>	<u>39,203</u>
Total operating expenses	<u>1,144,155</u>	<u>986,542</u>
Net Income from Operations	<u>606,036</u>	<u>45,204</u>
Other Income:		
Gain on sale of property assets	1,119	9,029
Miscellaneous income	<u>17,594</u>	<u>20,682</u>
Total other income	<u>18,713</u>	<u>29,711</u>
Total Income before Income Taxes	624,749	74,915
Provision for Income Tax Expense	<u>208,852</u>	<u>100,613</u>
Net Income (Loss)	415,897	(25,698)
Retained (Deficit) Earnings - Beginning of Year	<u>(23,965)</u>	<u>1,733</u>
Retained Earnings (Deficit) - End of Year	<u>\$ 391,932</u>	<u>\$(23,965)</u>

See Independent Auditors' Report on Supplementary Information.



2010-2011 board of trustees



Front (L-R): Jack Putnam, Clark Duncan, George Walton (Pres/CEO), Marlene Barker, and Steve Gerten.
Back (L-R): Ed Crawford, Dave Corbin, John Edie, Jim Demler, Knut Lahrs, and Tom Dierksheide.

Hancock-Wood Electric Cooperative, Inc.

1399 Business Park Dr. S.
P.O. Box 190
North Baltimore, OH 45872

www.hwe.coop